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APPLICATION NO.	FILING DATE	FIRST NAMED INVENTOR	ATTORNEY DOCKET NO.	CONFIRMATION NO.
09/608,682	06/29/2000	George Robert Hood	9011	2411

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EXAMINER	
RUDY, ANDREW J	
ART UNIT	**PAPER NUMBER**
3627	

SHORTENED STATUTORY PERIOD OF RESPONSE	MAIL DATE	DELIVERY MODE
3 MONTHS	02/01/2007	PAPER

Please find below and/or attached an Office communication concerning this application or proceeding.

If NO period for reply is specified above, the maximum statutory period will apply and will expire 6 MONTHS from the mailing date of this communication.

Office Action Summary	Application No. 09/608,682	Applicant(s) HOOD, GEORGE ROBERT
	Examiner Andrew Joseph Rudy	Art Unit 3627

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-- The MAILING DATE of this communication appears on the cover sheet with the correspondence address --

Period for Reply

A SHORTENED STATUTORY PERIOD FOR REPLY IS SET TO EXPIRE 3 MONTH(S) OR THIRTY (30) DAYS, WHICHEVER IS LONGER, FROM THE MAILING DATE OF THIS COMMUNICATION.

- Extensions of time may be available under the provisions of 37 CFR 1.136(a). In no event, however, may a reply be timely filed after SIX (6) MONTHS from the mailing date of this communication.
- If NO period for reply is specified above, the maximum statutory period will apply and will expire SIX (6) MONTHS from the mailing date of this communication.
- Failure to reply within the set or extended period for reply will, by statute, cause the application to become ABANDONED (35 U.S.C. § 133). Any reply received by the Office later than three months after the mailing date of this communication, even if timely filed, may reduce any earned patent term adjustment. See 37 CFR 1.704(b).

Status

1)☒ Responsive to communication(s) filed on *15 September 2005*.

2a)☐ This action is **FINAL**. 2b)☒ This action is non-final.

3)☐ Since this application is in condition for allowance except for formal matters, prosecution as to the merits is closed in accordance with the practice under *Ex parte Quayle*, 1935 C.D. 11, 453 O.G. 213.

Disposition of Claims

4)☒ Claim(s) *1-81* is/are pending in the application.

4a) Of the above claim(s) _____ is/are withdrawn from consideration.

5)☐ Claim(s) _____ is/are allowed.

6)☒ Claim(s) *1-81* is/are rejected.

7)☐ Claim(s) _____ is/are objected to.

8)☐ Claim(s) _____ are subject to restriction and/or election requirement.

Application Papers

9)☐ The specification is objected to by the Examiner.

10)☐ The drawing(s) filed on _____ is/are: a)☐ accepted or b)☐ objected to by the Examiner.

Applicant may not request that any objection to the drawing(s) be held in abeyance. See 37 CFR 1.85(a).

Replacement drawing sheet(s) including the correction is required if the drawing(s) is objected to. See 37 CFR 1.121(d).

11)☐ The oath or declaration is objected to by the Examiner. Note the attached Office Action or form PTO-152.

Priority under 35 U.S.C. § 119

12)☐ Acknowledgment is made of a claim for foreign priority under 35 U.S.C. § 119(a)-(d) or (f).

a)☐ All b)☐ Some * c)☐ None of:

1.☐ Certified copies of the priority documents have been received.

2.☐ Certified copies of the priority documents have been received in Application No. _____.

3.☐ Copies of the certified copies of the priority documents have been received in this National Stage application from the International Bureau (PCT Rule 17.2(a)).

* See the attached detailed Office action for a list of the certified copies not received.

Attachment(s)

1) ☒ Notice of References Cited (PTO-892)
2) ☐ Notice of Draftsperson's Patent Drawing Review (PTO-948)
3) ☐ Information Disclosure Statement(s) (PTO/SB/08) Paper No(s)/Mail Date _____.
4) ☐ Interview Summary (PTO-413) Paper No(s)/Mail Date. _____ .
5) ☐ Notice of Informal Patent Application
6) ☐ Other: _____.

DETAILED ACTION

1. Applicant's Appeal Brief filed September 15, 2005 has been reviewed. The previous rejection is withdrawn pursuant thereto.

Claim Rejections - 35 USC § 103

2. The following is a quotation of 35 U.S.C. 103(a) which forms the basis for all obviousness rejections set forth in this Office action:

> (a) A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.

3. Claims 1-81 are rejected under 35 U.S.C. 103(a) as being unpatentable over the John R. Johnson article titled "Raising Relationships II" published June 1999. Johnson discloses on page 32, column 2, a "Five-part profitability" that is disclosed as having been delivered during the week of August 24, 1998 (see footnote 1). Official Notice is taken that a risk provision comprising an expected future loss that arises from one or more risk factors and predicting expected future losses at an account level has been common knowledge in the financial processing art. Further the dependent claim limitations are deemed to have been common knowledge in the art at least one year prior to Applicant's filing date. To have provided such for Johnson would have been obvious to one of ordinary skill in the art. It is noted that footnote 1 is a result of an NCR presentation. The full scope of what was presented during the contents related to footnote 1 and any other related pertinent information is requested.

3. Applicant's REMARKS from the Brief have been reviewed, but are moot in light of the new grounds of rejection.

4. A further reference of interest is noted on the attached PTO-892.

5. Any inquiry concerning this communication or earlier communications from the examiner should be directed to Andrew Joseph Rudy whose telephone number is 571-272-6789. The examiner can normally be reached on Monday thru Friday.

If attempts to reach the examiner by telephone are unsuccessful, the examiner's supervisor, Ryan M. Zeender can be reached on 571-272-6790. The fax phone number for the organization where this application or proceeding is assigned is 571-273-8300.

Information regarding the status of an application may be obtained from the Patent Application Information Retrieval (PAIR) system. Status information for published applications may be obtained from either Private PAIR or Public PAIR. Status information for unpublished applications is available through Private PAIR only. For more information about the PAIR system, see http://pair-direct.uspto.gov. Should you have questions on access to the Private PAIR system, contact the Electronic Business Center (EBC) at 866-217-9197 (toll-free). If you would like assistance from a USPTO Customer Service Representative or access to the automated information system, call 800-786-9199 (IN USA OR CANADA) or 571-272-1000.

Andrew Joseph Rudy
Andrew Joseph Rudy
Primary Examiner
Art Unit 3627

Notice of References Cited	Application/Control No. 09/608,682	Applicant(s)/Patent Under Reexamination HOOD, GEORGE ROBERT	
	Examiner Andrew Joseph Rudy	Art Unit 3627	Page 1 of 1

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U.S. PATENT DOCUMENTS

*		Document Number Country Code-Number-Kind Code	Date MM-YYYY	Name	Classification
	A	US-			
	B	US-			
	C	US-			
	D	US-			
	E	US-			
	F	US-			
	G	US-			
	H	US-			
	I	US-			
	J	US-			
	K	US-			
	L	US-			
	M	US-			

FOREIGN PATENT DOCUMENTS

*		Document Number Country Code-Number-Kind Code	Date MM-YYYY	Country	Name	Classification
	N					
	O					
	P					
	Q					
	R					
	S					
	T					

NON-PATENT DOCUMENTS

*		Include as applicable: Author, Title Date, Publisher, Edition or Volume, Pertinent Pages)
	U	John R. Johnson, Raising Relationships, Bank Marketing, June 1999, pages 16-24.
	V	John R. Johnson, Raising Relationships, Bank Marketing, June 1999, pages 30-36, footnote 1.
	W	
	X	

*A copy of this reference is not being furnished with this Office action. (See MPEP § 707.05(a).)
Dates in MM-YYYY format are publication dates. Classifications may be US or foreign.

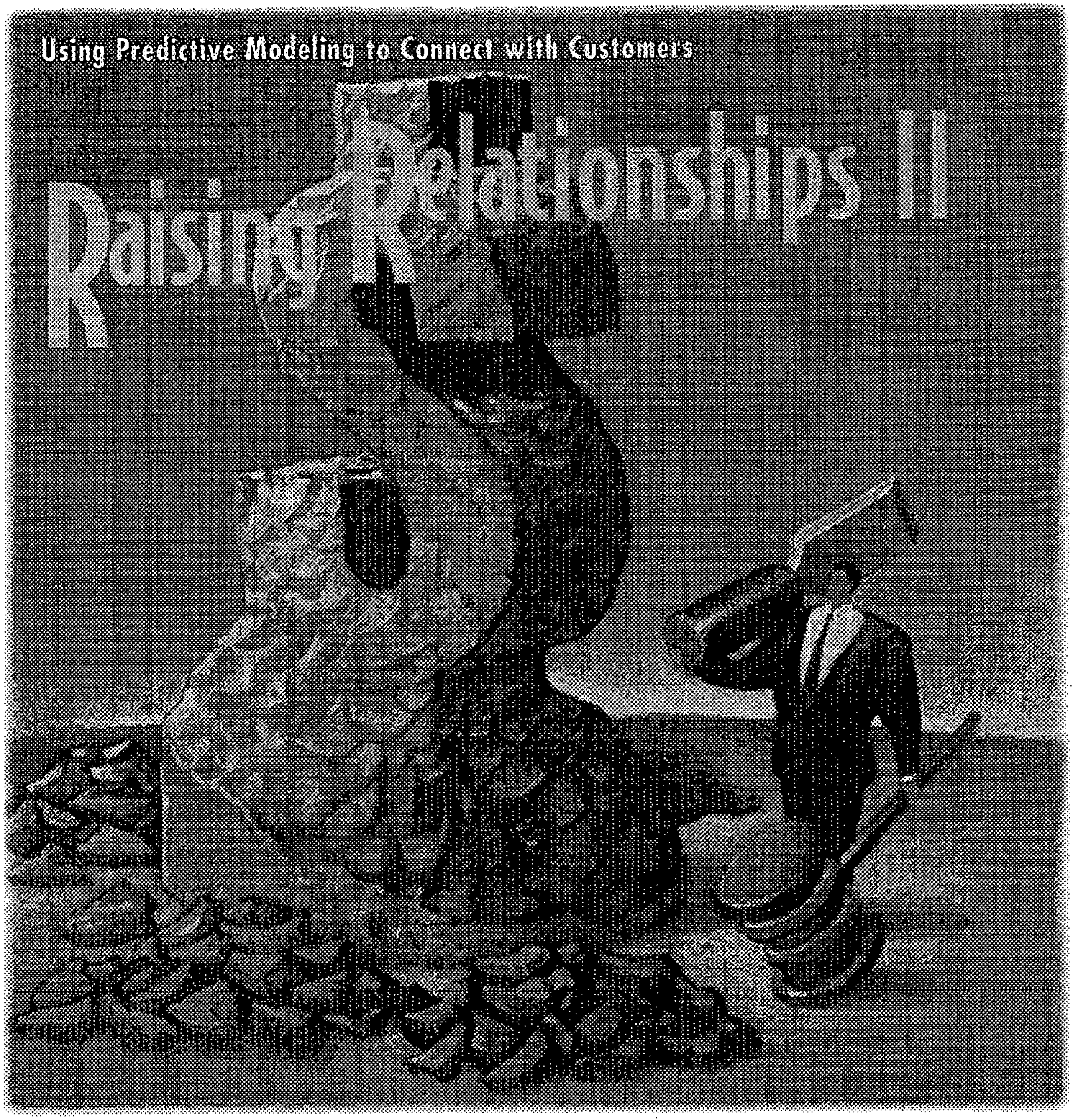


Illustration by Lael Henderson

by John R. Johnson

Part one of this article appeared In the May 1999 issue of Bank Marketing*. There, John Johnson examined the two-part nature of branding, the difference between brand recognition and recall, and the ways banks can build better customer relationships. He also explored how event-level marketing strategies can help institutions connect with customers in more compelling ways.*

In part two of the article, Johnson discusses the predictive modeling, another approach to building solid relationships with customers.

One thing leads to another.

In most contexts, it's the

language of exasperation.

But in terms of building

customer relationships

and marketing financial

products and services,

That's exactly what

You *want* to happen.

One thing leads to another.

For bank marketers,

This amounts to the

good version of the

Domino Theory:

Current needs

morph into new ones;

present services

multiply to keep pace.

One thing leads to another.

Here's how to ensure that it does.

A brief history of predictive modeling

For some marketers, the idea of the *Next Logical Product* has become synonymous with state-of-the-art targeted marketing. The ascendancy of customer-centric marketing, one-to-one marketing and relationship marketing has encouraged banks to view the Next Logical Product as critical to the success of their business strategies and tactics. But what is it, exactly?

Historically, banks promoted products individually, in large, product-centered campaigns. These promotions were frequently based upon statistical simulations of each customer's likelihood to purchase a specific product. Put simply, those customers with the strongest predicted predilection for a product received a solicitation.

With the advent of one-to-one and relationship marketing, bankers became less obsessed with the efficiency of single-product campaigns and more concerned about building relationships with customers. They came to believe that marketing products that appealed to individual clients best built such relationships. The challenge became how to determine if a client was interested in a specific product. Thus, predictive modeling was born.

This approach is somewhat different from the event-level marketing discussed in part one of this article (*Bank Marketing*, May 1999). Predictive modeling is *anticipatory*, while event-level marketing is *reactive*. In event-level marketing, the customer must engage in some overt action that triggers contact from the bank. Even though predictive modeling rarely—if ever—has success rates as high as those of event-level marketing, revenues from predictive modeling are *incremental*. And realizing revenue from a relatively inexpensive source makes good business sense.

Banks and other industries soon adopted formal models of customer-behavior to determine which products their customers were most likely interested and, thus, which products the bank should be promoting. The new goal is for bank customers to see fewer messages about products and services that don't interest them, and more messages about those products and services that they need. The process of ensuring that this happens is called the Next Logical Product method.

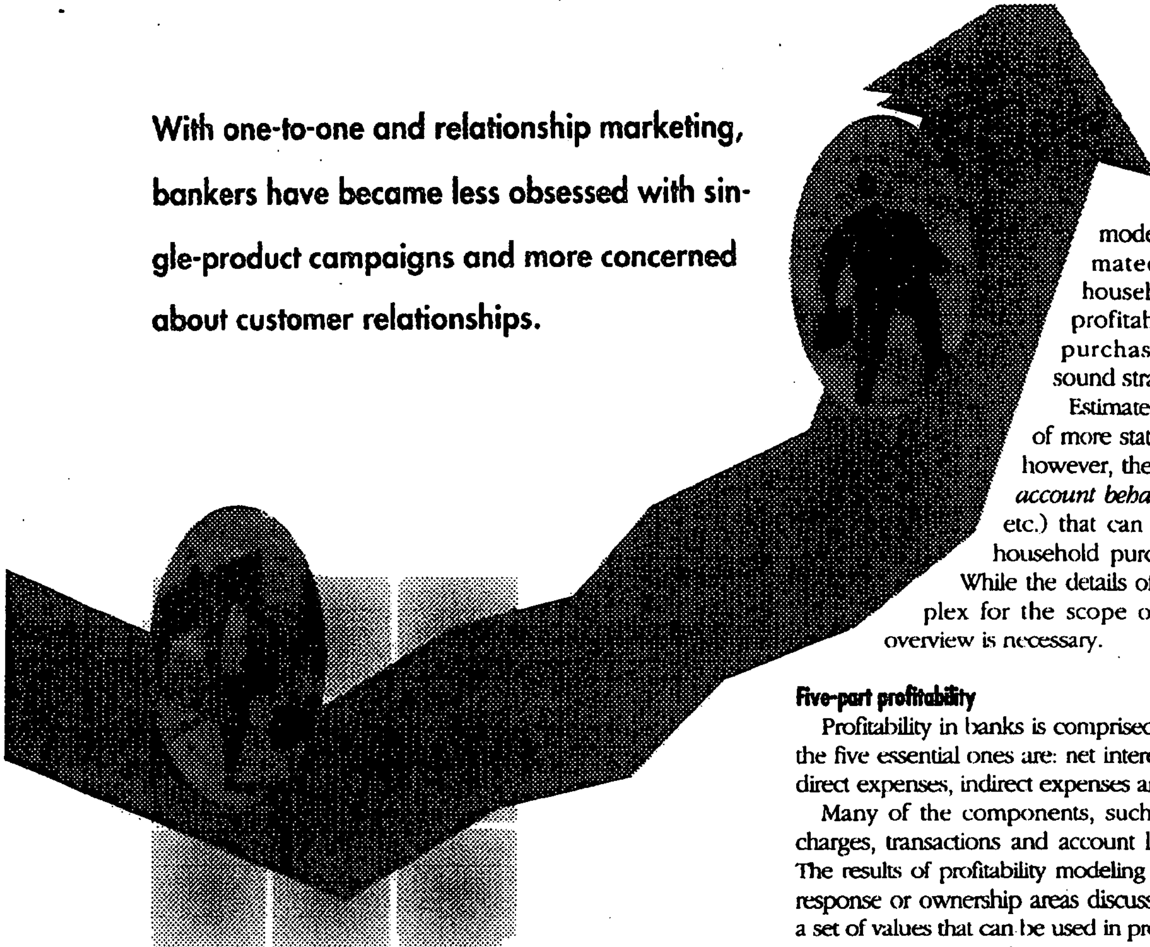
The Next Logical Product

Although simple in concept, the Next Logical Product is a complex combination of statistical models that transforms a comprehensive product focus into a customer-oriented approach. In order to develop a Next Logical Product (or Service) strategy, a bank would run each of its households through formal models of customer behavior for ownership (or purchase or response—if there are available data) of each product/service. The level of specificity for each product or service is important, so the process is not crowded with superfluous offerings.

Although the details of the statistical modeling are beyond the scope of this article, a general discussion of the process is necessary. The first step in developing a predictive model is to synchronize the bank's product offerings with the way customers view bank products. It is critical that the products the bank is analyzing are representative of the way a bank customer sees banking products, not the way bankers view them.

For example, ten or twenty different checking accounts, all based on an add-on package offering, is *not* the way customers view checking accounts. In order to establish a workable number of models, a reasonable approach would be to focus on products that come from the bank's MCIF P-type categories—assuming the bank has a customer-oriented P-type classification.

With one-to-one and relationship marketing, bankers have became less obsessed with single-product campaigns and more concerned about customer relationships.



For this discussion, let's assume that the bank has 12 product categories (interest checking, non-interest checking, savings, money market, certificates of deposits, individual retirement accounts, credit cards, collateralized loans, unsecured loans, mortgages, insurance and trust.) Once synchronization has occurred, the probability of response or ownership is calculated for each individual product.

These product-based probabilities for each household in the database are comparable across all models. In other words, if the probability score for an interest-bearing transaction account was higher for a given household than a collateralized loan, the likelihood of successfully selling an interest-bearing checking account would be higher than selling a collateralized loan.

At the end of this modeling process, a bank will know the likelihood of any household purchasing any of the offered products and services. These probabilities are sorted in descending order for each household. The first account in the sort list for each household (that account with the highest probability or highest likelihood) is the Next Logical Product for that household.

Once the bank knows which product a customer is likely to be interested in, it can specifically market to the household. At this stage, some marketers consider the bank to be taking a holistic approach in regard to the customer. And they see the institution as customer-centric. But simply stopping at this point ignores the shareholders' stake in the equation.

By not incorporating *profitability* in its modeling, the bank may be selling products to unprofitable customers. Profitability is a critical-but-frequently overlooked component of predictive modeling. Estimated profit must be constructed for each account type modeled for purchase. Each account in the probability model should also feature estimated profitability for each household. Both the estimated profitability and probability-of-purchase are needed to make sound strategic decisions.

Estimated profitability is the result of more statistical modeling. This time, however, the object is to determine the *account behavior* (balance, transactions, etc.) that can be expected if a specific household purchased a specific account. While the details of this process are too complex for the scope of this discussion, a brief overview is necessary.

Five-part profitability

Profitability in banks is comprised of many parts. In general, the five essential ones are: net interest revenue, other revenue, direct expenses, indirect expenses and risk provision.[1]

Many of the components, such as balance, fees, service charges, transactions and account life-span can be estimated. The results of profitability modeling are not binary, as with the response or ownership areas discussed earlier. Instead, it yields a set of values that can be used in profitability calculations.

Other revenue and expense components, such as expense allocations and risk, can be estimated through business modeling. The product of both kinds of modeling is estimated profit for each account (interest checking, non-interest checking, savings, etc.).

Once the probability-of-response and estimated profitability are available, they can be combined to form additional marketing intelligence. The product of the magnitude of gain or loss by the probability of that gain or loss actually occurring is the *potential profit*. This potential-profit figure incorporates profitability and response and increases the efficiency of targeting.

Because estimated profitability is available for each product a customer may purchase, it helps determine how many marketing dollars can be reasonably allocated to selling a specific product or service to a specific household. Combining probability-of-response and profitability helps eliminate the sale of unprofitable accounts. On the other hand, it helps eliminate the tendency to market those products that are profitable, but generally not needed.

Once the bank has a system for selecting the product that the customer is most likely to purchase at the highest profit level possible, the institution must get the specific products and incentives to the various touch-points.

Assuming the bank has done an effective job of positioning itself in the marketplace and with its customers, has established a way to identify a time when customers should be contacted and has established a methodology to predict customer needs—what's next?

How does it all fit together?

The answer to this is simple: Build a relationship by communicating with your customer. This specialized communication can follow three general paths:

The first path is a general media branding effort. Without recognition, other marketing efforts will be less-than-optimal. General media branding should be viewed as what banks

want their customers to think when they think of their financial needs. In this approach, all other communications, direct mail, telemarketing, personal selling and marketing efforts should be tightly integrated and controlled.

The second path is timely institutional response to events in the customer's financial life. In the last issue of *Bank Marketing*, we looked at a customer who was in the process of closing down his entire relationship with a bank. What kind of message should this customer have received from his bank when his savings balance went to $0? The one he did get, printed on his $0 balance savings statement—two months after he withdrew all of his money from his savings account—was this:

YOUR ACCOUNT CURRENTLY HAS A ZERO BALANCE AND HAS BEEN INACTIVE SINCE 12-22-98. IF YOU WOULD LIKE YOUR ACCOUNT TO REMAIN OPEN, YOU SHOULD MAKE A DEPOSIT IMMEDIATELY OR NOTIFY YOUR LOCAL [bank name suppressed] *BRANCH. OTHERWISE YOUR ACCOUNT WILL BE CLOSED AND YOU WILL NO LONGER RECEIVE A STATEMENT FROM US. THANK YOU FOR BANKING WITH* [bank name suppressed.]

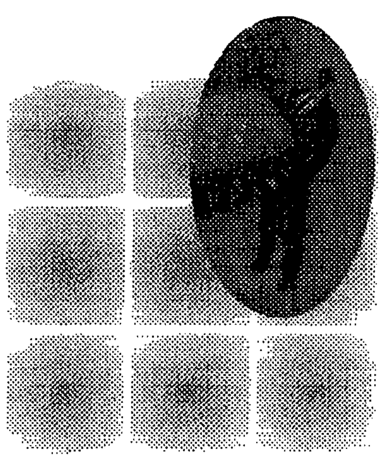
And when this same customer became frustrated in dealing with the bank's call center and withdrew a loan application, he received the following letter:

Thank you for your recent interest in a consumer loan from [bank name suppressed]. *No further consideration will be given your application since you have requested that it be withdrawn.*

If you have any questions regarding this letter, please contact your lender at the office listed below.

For a customer who is considering ending his banking relationship, how meaningful is it to be told that, in order to keep his savings account open, he should make a deposit immediately? A telephone call the day after the balance went to $0 might have saved the account—and, by extension, the relationship. Perhaps there should have been even earlier contact, when the customer's end-of-month savings balance dropped 40 percent.

Predictive modeling is *anticipatory*, while event-level marketing is *reactive*.



With regard to the other communication, how ambiguous is withdrawing a loan application and telling the sales person that you are making arrangements elsewhere? And yet, in all probability, this bank would describe itself as "customer-centric." While it is certainly in vogue to *say* this, the bank's *actions* suggest it is an entirely different sort of organization.

The third path is regular, relevant marketing efforts. Keep in mind that customers like to be *sold*—not *hustled*. Suggesting products to prospects that other, similar customers also own is not offensive. It is the reasonable development of business. And because of the favorable economies of scale that drive these kinds of efforts, they can generate substantial returns.

The key in building a relationship with your customers is to provide a value proposition that causes them to consider you as their financial service provider. Then monitor behavior, act in a timely fashion and anticipate needs.

Once the infrastructure, branding efforts and contact strategies are in place, it is critical that communications are integrated, so there are no mixed messages. To accomplish this, a "managed message" environment must be developed.

Control is exercised over the type of direct contact (mail, statement messages, ATM messages, etc.) that is used to contact the customer. The message itself is also controlled, regardless of whether it is in response to an event in the customer's relationship with the bank or as a result of predictive modeling. It should be ensured that the customer does not receive multiple messages in the same time frame.

TURN TO PAGE 43 TO "FAX FOR FACTS"

In the current business climate, it is tempting to fashion a single solution to complex problems. Unfortunately, managing business relationships with customers is one of those multidimensional issues for which there is no one answer: a "silver bullet" does not exist. It is a climate, however, that is a business opportunity for those institutions with foresight and determination to develop truly lasting and profitable relationships with their clients. These kinds of relationships are constructed through constantly listening to the customer, regardless of whether he or she is speaking or communicating via actions.

Event-level marketing, examined last issue, and the Next Logical Product are driven by the availability of detail-level data, updated daily. It makes the detection of customer behavior and appropriate bank interaction/intervention possible. The availability of detail-level data also drives the predictive modeling, improving the efficiency and success of sales efforts.

The art of marketing

Once the "science" of marketing has been attended to, and the statistical modeling and business-rule development has been finalized, one crucial step remains before the marketing message touches the customer.

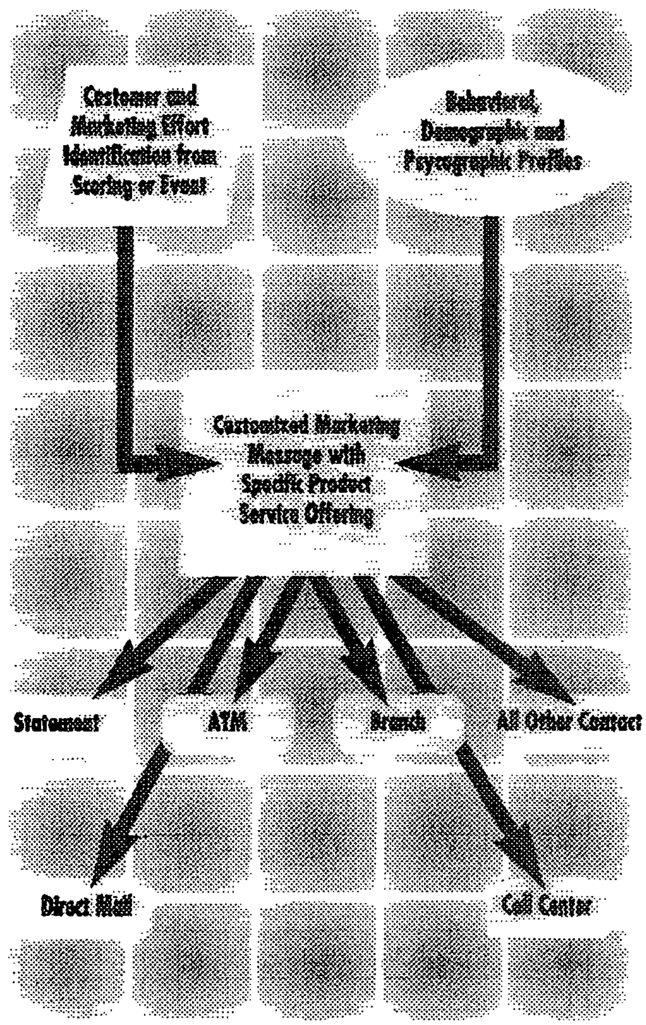
How many times have hundreds-of-thousands—if not millions—of dollars been spent on sophisticated efforts to identify specific customers, only to then send them what is essentially a form letter? It's not unreasonable for a bank to believe that its most profitable customers are unique in their needs and unlike the rest of the institution's clients. But are profitable customers so similar in lifestyles and perspectives that no targeted communication is necessary? Of course not.

It is at this point that segmentation findings, demographic profiles and general account data are merged back into the information flow and used to develop a targeted message that is relevant to the customer (*Figure 1*). It is critical to incorporate the knowledge banks have of their customers into the communications with them. A 65-year-old customer with $20,000 in deposits and $100,000 of investable assets is very different from a 40-year-old customer with $20,000 in deposits and $100,000 in investable assets.

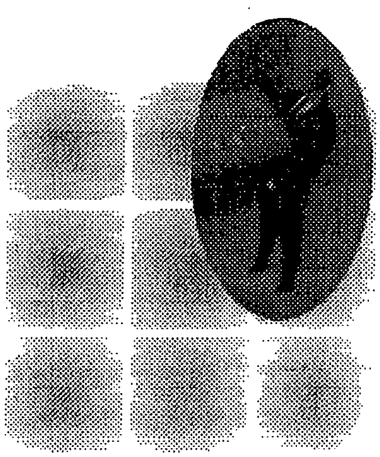
Although the account behaviors of the 65-year-old and 40-year-old may be almost identical—and the product or service that would be appropriate for them is identical—their *motivation* for making that financial decision is probably very different.

If the bank does not take customer motivation into account, all of its early efforts may be for nothing. It is important to remember that although the *science* of marketing is very powerful, the buying decision is still a personal one. The *art* of marketing is, therefore, as crucial to closing a sale as the science. It is a costly error to treat all your customers the same—even if their accounts are similar.

FIGURE 1



Using the *Next Logical Product* approach, bank customers see fewer messages about products and services that don't interest them, and more communications about what they need.

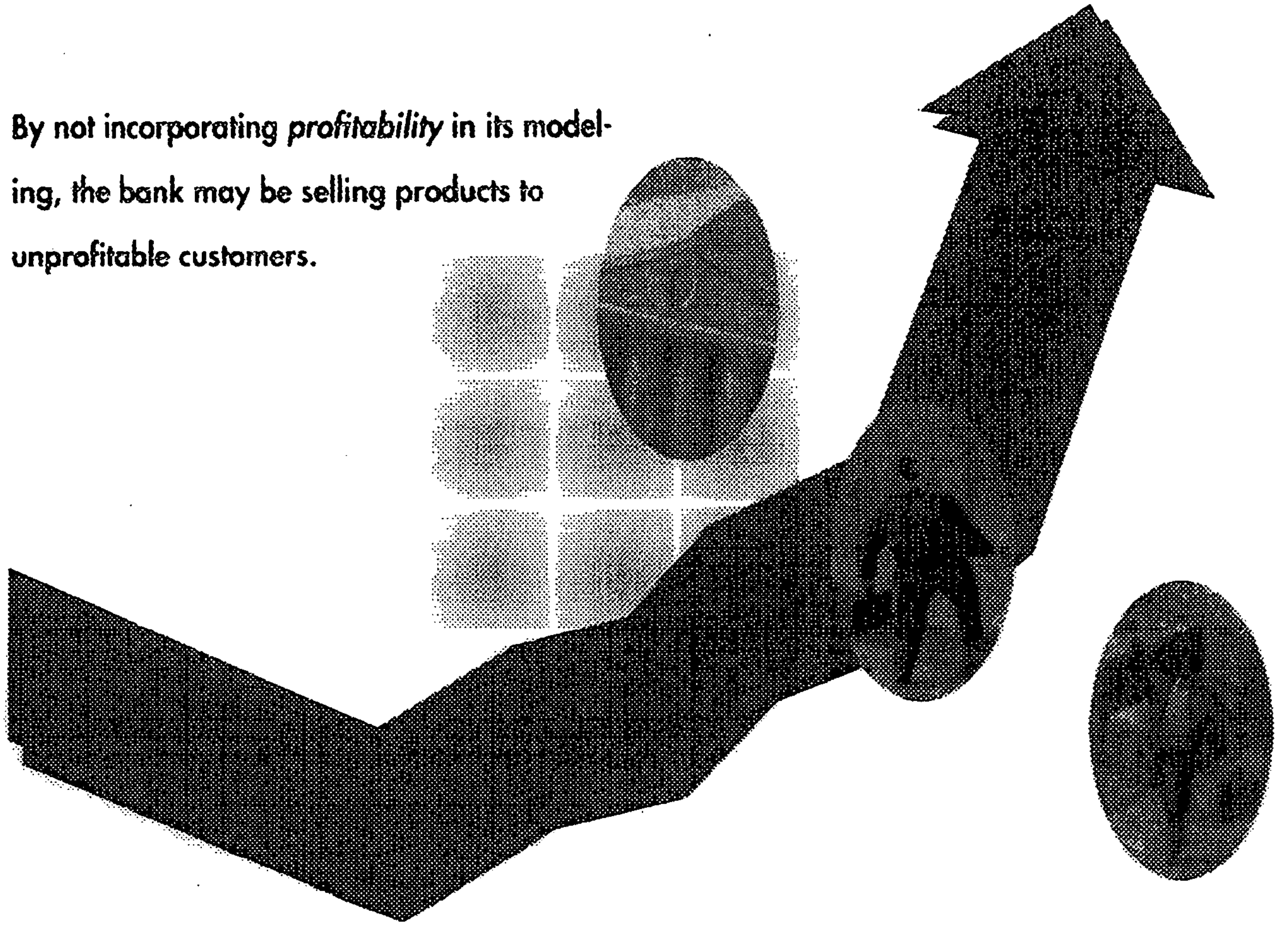


Upon arriving at this realization, a bank can consider itself owning a state-of-the-art marketing process. Appropriately managing branding and imaging—and incorporating all customer touch-points with specific meaningful and relevant messages impacts a bank's bottom line.

Technology

The art and science of building customers relationships is a business dilemma, and the solution is driven by knowledge about individual customers compiled in databases.

By not incorporating *profitability* in its modeling, the bank may be selling products to unprofitable customers.



Thus, it is appropriate to examine the investment in the information technologies needed to build customer relationships. Professors M. Bensaou and Michael Earl note that developing an IT strategy that perfectly mirrors the company's business strategy may be a fruitless exercise. Instead, they suggest using the Japanese philosophy of skipping strategy-alignment altogether and "[basing] technology investment decisions on easily quantifiable performance improvement goals."

It is tempting to invest in "technology for technology's sake" or to invest in technology only if it produces a predefined financial objective. But the importance of managing customer relationships is of such strategic importance that old ROI metrics may not be appropriate. A more realistic way of testing the viability of a technology investment is to determine the payoff of existing or proposed performance goals if they could be reached, and then selecting the technology that allows those goals to be met.[2]

In short, business objectives should drive the technology decisions. If the technology will support meeting the business objectives, then it is a viable option. This is a particularly salient way to approach data warehouses. The managers charged with implementing data warehouses—which, by the way, are crucial to Next Logical Products and event-level marketing efforts—frequently have fixations on size. It is not uncommon for a banker to be quoted in the financial press commenting on the storage capacity of their new data warehouse, the anticipated future impact, the number of systems that it sources and the years that the effort took.

What is less common is comments on how the data warehouse is quantifiably impacting the bottom line. Even rarer are estimates on how quickly data warehouses begin to contribute to meeting business objectives.

Taking a business-objective approach to deploying a data warehouse should ameliorate the chances of quick success and minimize spurious data that contribute little to the roll-out of a data warehouse.

It should be clear to banks that a "silver bullet" with regard to gaining customer mind-share does not exist. Managing these relationships is a complex business issue that is built upon sophisticated computer hardware, software, statistical analysis, business rules and programming.

However, at the heart of all this is a business issue: *How can I positively impact my bottom line?* The answer is an incremental process of continual improvement. The key here is to establish specific business objectives and work toward them, while generating returns.

With the focus on quarterly profit, anything less is intolerable to the shareholders. ■

John R. Johnson is a senior business consultant in customer management solutions with a large technology company. He can be reached at (704) 509-9501.

[1] Cliff Baggett, CPA, "Presentation of NCR's "Five Factor Atomic Profit Metric" to The Brazilian Bankers Association and Brazilian banks", Sao Paulo, Brazil, Week of August 24, 1998.

[2] M Bensaou and Michael Earl, "The Right Mind-Set For Managing Information Technology", *Harvard Business Review*, September-October, 1998, pp. 120-124.

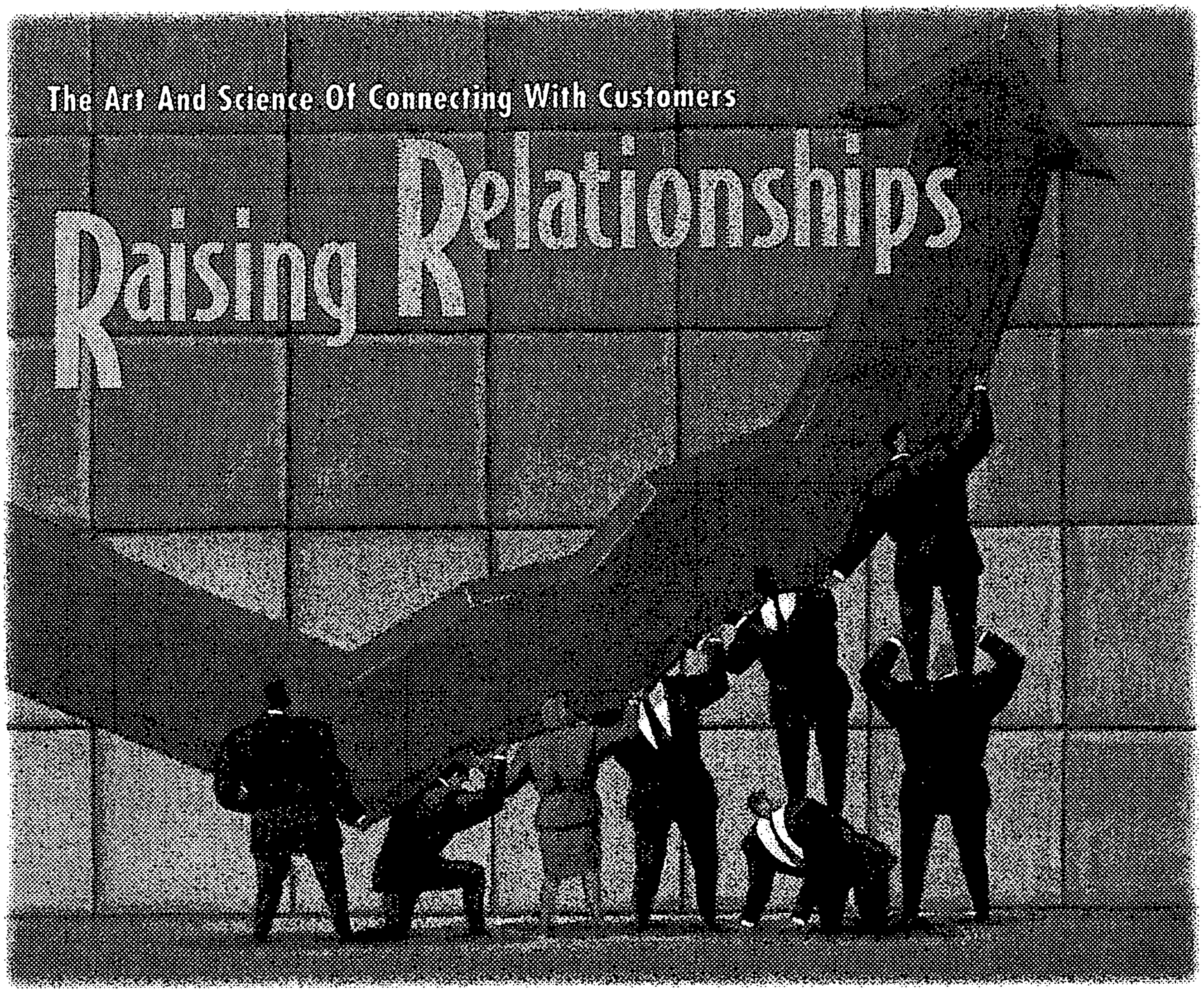


Illustration by Lael Henderson

by John R. Johnson

Today's business world is a highly charged, intensely competitive environment where catering to consumer needs and whims is often more like religious fervor than business process. Millions of dollars are spent by banks of all sizes in studying and profiling their customers, simulating their behavior and generally fretting about how to approach their customers. And for good reason. In an environment where share prices are based on a firm's quarterly financial performance, there is little appetite and less opportunity for long-term projects with bottom-line contributions that are not immediate and quantifiable.

In the battle for consumer share-of-mind, conventional wisdom suggests that success can be found through branding—associating specific attributes that, in a customer's mind, add value to doing business with an institution. Most marketers believe that if their bank finds a place at the top of a customer's mind, the institution will automatically be considered when financial services are needed. But the trick is how to achieve this.

Some marketing executives favor massive direct-mail campaigns, with their economies of scale, as the way to remind customers of the bank's products and services. Others maintain that a bank must spend millions on sophisticated relational database software to profile and understand who its customers are. Still other solutions for capturing customer attention include campaign management, predictive modeling, large corporate donations and statement stuffers.

In all these scenarios, there is an assumption that the battle for the customer's mind can be won with a single strategy—a "silver bullet." Indeed, with today's focus on immediate return, it is tempting to latch onto one way of developing and managing customer relationships. Unfortunately, however, customer relationships are multidimensional, and no single solution can address all the possibilities.

For banks, the real issue is not the management of customer relationships *per se*, but the creation of an environment where such relationships can develop.

Three of the most frequently discussed mind-share "solutions," when combined, are quite effective in establishing such an environment. These are *branding*, *event-level marketing* (the identification and response to specific observed behavior of the customer), and *predictive modeling* (formal, mathematically based models of behavior).

Sometimes it seems that one knee-jerk approach to market share (hanging out an *Open* sign and looking pleasant) is simply replaced by another (branding everything in sight and some stuff out-of-sight, too).

Branding, in and of itself, is no more an answer to attracting, retaining and growing customers than unlocking the door and smiling expectantly.

What's needed is a rigorous method of determining which customer relationships are the most valuable and what those customers need.

In this and the next issue of *Bank Marketing*, we will examine how these three strategies work to help increase customer mind-share and relationships. Right now, we'll look at branding and event-level management. In June, predictive modeling will be analyzed.

The two-part nature of branding

Brand. To marketers and the public alike, the word conjures up the Coca-Cola logo, the Absolute Vodka bottle and the Merrill Lynch bull. Brands with long histories, such as Marlboro, Xerox and IBM, are considered to be among the world's most valuable assets.

Branding is particularly critical to banking, where the perceived product differentiation between institutions is virtually non-existent. After all, with the exception of rates, how different can a checking, savings, or loan account be?

In this field of similar products, the attribute that is commonly believed to differentiate one financial institution from another is *service*. Indeed, people may not need *banks* at all—what they do need, however, is *banking services*. If this is the case, the issue of branding becomes problematic for banks. How can something as generic as *service* be branded, recognized and recalled?

But branding things not normally considered "brandable" is not an impossible task. Sunkist CEO Russell Hanlin points out that "An orange…is an orange…is an orange. Unless, of course, that orange happens to be a Sunkist, a name 80 percent of consumers know and trust."

Imagine two oranges in a grocery store that are identical in cost and appearance. Which one is a customer most likely to choose? The one they know—or feel they know. It is simpler and more cost-effective to sell products or services that customers have heard of. Because of this, the importance of brand cannot be overstated with regard to financial institutions. If an orange can be branded, so can financial services.

Recognition and recall

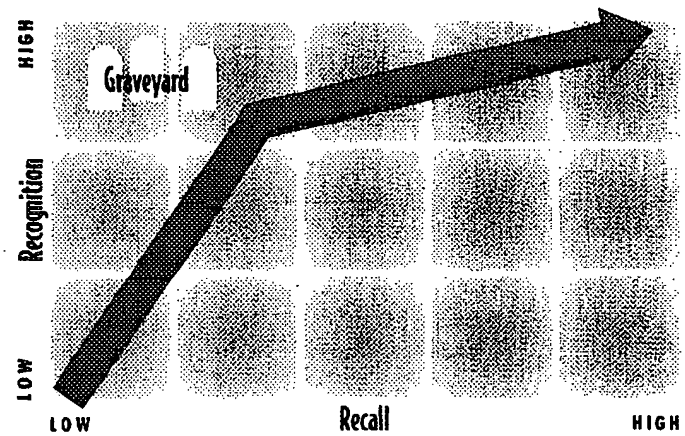
The power of a brand can be measured in two ways—in terms of *recognition* and in terms of *recall*. Recognition occurs when a consumer remembers having heard the name of a product, for whatever reason. But for a brand to be successful, it must also have recall. Recall occurs when a brand, such as Amazon.Com, comes to mind because its product class is mentioned. Acting on brand recall, customers are not faced with choices—in essence, they are forced to seek out a specific provider. Brand recall makes a provider's name synonymous with a need.

As an industry, banks have high recognition—because most people use some kind of banking service, they believe they know what products are available from banks. But, as mentioned, simple high name-recognition is insufficient for success. In the case of well-known bank brand names, high recognition may actually be an *impediment* at that critical moment when consumers make "buy decisions" regarding financial services.

Young & Rubicam Europe, under the guidance of Jim Williams, developed a measure of the power of both of brand recognition and recall. According to this model, high name-recognition without high recall places a brand in a "graveyard," where consumers recognize the brand, but have little appetite for new information about it.[1] (*Figure 1*)

This model should alarm all but the most myopic bank marketers. Almost everyone is familiar with the bank on the corner

FIGURE 1 **Brand**



and the institutions they pass on their way to work and shopping. And it is likely that these people, confronted with the names of those banks, would remember having seen or heard their names somewhere. This is recognition—but it is not brand recall. This is why many traditional banks are on the verge of finding themselves in Young & Rubicam's brand "graveyard." Recent evidence supports this observation.

Banks not seen as advisors

Forbes magazine, discussing the validity of bank-managed mutual funds, opined that while "banks do a fine job with checking accounts, mortgages and car loans most people would rather see a specialist for mutual funds[2]."

Indeed, a study conducted by the *Journal of Accountancy* found that 79 percent of all respondents believed financial planning is important (either "extremely" or "slightly"). But

With the focus on immediate return, it 's tempting to latch onto one way of developing and managing customer relationships.

when the survey provided responders with seven choices of financial planning advice (attorney, banker, stockbroker, accountant, life insurance agent, friend or relative, "other"), insurance providers were the source of advice most frequently cited. (It bears noting that the survey sample was drawn from customers of a large insurance company.)

Following insurance agents as sources of financial planning advice were accountants. Tied in third-place as financial advisors were attorneys, brokers and bankers. Friends or relatives, and "other" brought up the rear.[3]

Banks' ranking as financial advisors in this survey is ironic, since *Forbes* has highlighted five bank-managed mutual funds that beat the S&P 500 three-year annualized return through August 21, 1997.[4] How, then, can banks convince their customers to consider them for financial services beyond simple checking, savings and loan accounts?

Again, banks have high recognition; customers are familiar with banks. But many, customers do not consider them synonymous with the need for financial products and services.

Focus beyond products

The obvious solution is to simply increase advertising efforts. But the problem is not that banks aren't advertising or attempting to develop their images, *it's that the customers aren't listening.*

Amidst intense competition, how does an institution go about developing brand equity and long-term customer relationships? One way is for banks to steer away from a product focus in their advertising and feature instead a corporate "meta-focus." Organizations like Coke, Disney and Microsoft are prospering with this approach.[5]

And banks are beginning to grapple with their overall perception in the eyes of customers. Wells Fargo believes it can attract customers and profits with a low-cost, high-tech and automated image. On the other hand, Wells competitor, Union Bank of California, believes in the critical importance of branches—where people go to open accounts. Indeed, Union Bank of California has expanded its branch system by 33 percent.

High-tech, low-cost, quick-access or low-tech personal assistance? Which path offers the greatest rewards for the bank and for the customer? While the jury remains out regarding this, it's important to note that both banks are promoting something far larger and more resonant than specific products and services. They are becoming image-brokers.

Three-way image skirmish

On the East Coast, another interesting example of image-building and branding is developing. North Carolina is home to two of the largest banks in the industry—the nation's largest retail bank, $552-billion Bank of America (formerly NationsBank), and the 6th largest bank in the country, $229-billion First Union. It is also home to several other smaller institutions, including $34-billion BB&T, the country's 27th largest banking company.

Bank of America is focusing on convenient access. Their positioning is almost exclusively related to the ease with which consumers can deal with them—by telephone, Internet, PC banking and, of course, branch. Its cheery and friendly television advertisements are filled with young professionals describing how easy it is to deal with Bank of America.

By contrast, First Union is positioning itself as "The Mountain" of financial expertise: "*Wherever you want to go, we've already been there*" announces the voice-over in one of their television commercials which characterizes financial markets as a frightening fun house of banks, insurance companies, and investment houses. It suggests that the poor consumer needs the protection and power of a mammoth institution simply to understand the vernacular of modern financial services. And to ensure that the overwhelmed consumer knows that First Union is customer-friendly, the voice-over concludes, "*If you prefer, The Mountain will come to you.*"

While BB&T is the 27th

Customer relationships are multidimensional—no single solution addresses all the possibilities.

largest bank in the country, it controls the largest market share in North Carolina, the home of Bank of America and First Union. BB&T presents itself as the fulfillment of a banking relationship fantasy. Their television advertisements fill the screen with a peaceful walk along the seashore where a woman dreams of an idylic world where:

"I will live to be a hundred-and-three. I will never tire of walking on the beach. Except in November. I will start each day with strong, hot coffee. And eat malted milk balls...even when I no longer have my own teeth. And when I go to the bank, they will know my name."

Are these advertising and branding efforts worth the enormous expenditure of shareholder capital?

Do customers really think of Bank of America or First Union or BB&T first, because of the images projected by their advertising? And, assuming that they do, is it possible that, regardless of the reason a consumer decides to contact one of the banks, are the media-instilled expectations of easy contact, expertise or service fulfilled?

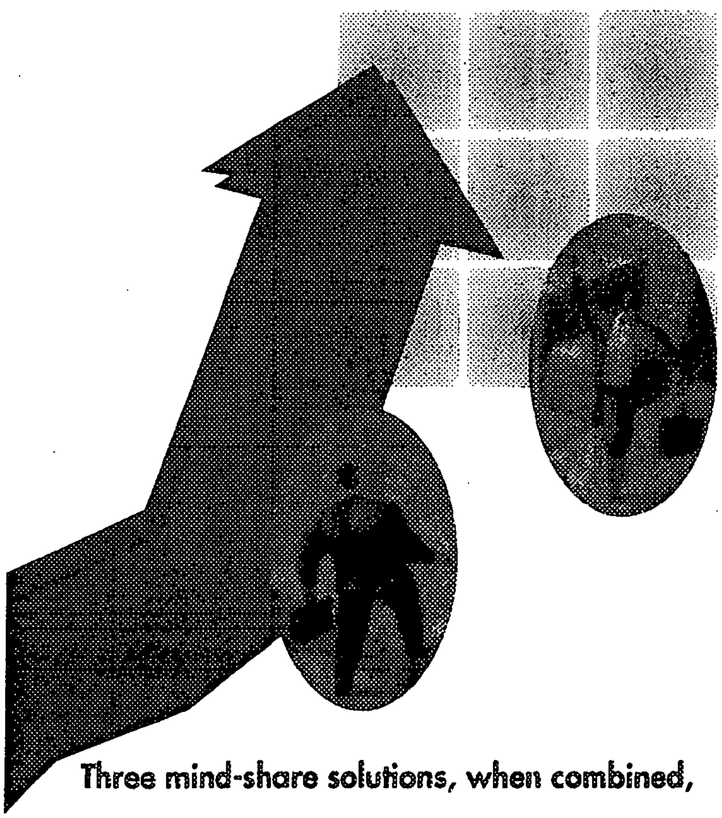
The critical thing to remember is that branding is about establishing a mental image of a place where conducting financial business would be rewarding. It cannot be about selling checking, savings and loan products. It also follows that relationship-building and customer-oriented marketing is more about promoting an environment in which customer relationships can develop than it is about tactically managing the relationship itself.

Building customer relationships

Branding and advertising can be effective in the overall positioning of the bank as a good place to do business. Branding can also be of significant assistance in clearing the crucial hurdle for most customers of establishing an initial account. But branding efforts are not effective in causing the customer to remain or deepen the business relationship. For that to happen, the bank must prove that it is interested in the personal well-being of the customer.

On the other hand, although branding and relationship-building are not necessarily sequential, the chance of developing a relationship with a customer is much more likely if a bank has first succeeded at building brand equity in the mind of the customer. But once the bank's position is established with image and branding, how does a bank actually touch the customer in a meaningful way?

Building a personal relationship with a customer is an unambiguous process: The bank must have meaningful, ongoing communication with the customer. There are two



Three mind-share solutions, when combined, are quite effective: branding, event-level marketing and predictive modeling.

TURN TO PAGE 51 TO "FAX FOR FACTS"

Take Our Financial Empire . . . *Please!*

by John R. Johnson

There is ample evidence to suggest that customers are justified in *not* considering banks when investment or advice decisions are at hand. Berkley California-based Stern Marketing Group conducted shopping surveys in Chicago, New York and San Francisco. In this test, neatly dressed, young adult testers with $2,500 to invest, visited banks. The results were telling[1]:

- Average wait time before someone from the bank approached was 11 minutes.
- Almost one-quarter (24 percent) of the banks took between 13 and 27 minutes.
- In more than one in ten (12 percent) of the banks, no one approached within 30 minutes.
- Of those approached, 60 percent were not inter viewed properly so as to qualify them for proper investment options.
- Almost two thirds (64 percent) were not informed of the investment options promoted by the bank.
- And most amazing of all—28 percent were referred to another investment institution.

[1] "Hanging Out in the Lobby", World Wide Web at *http://www.bmanet.org/copy-2-fact.html.*

ways of accomplishing this. *Event-level marketing*, relies on a dialogue with the customer where the bank learns what is important in her life and what her financial intentions are. The bank, in turn, responds with suggestions specific to the customer's needs and desires.

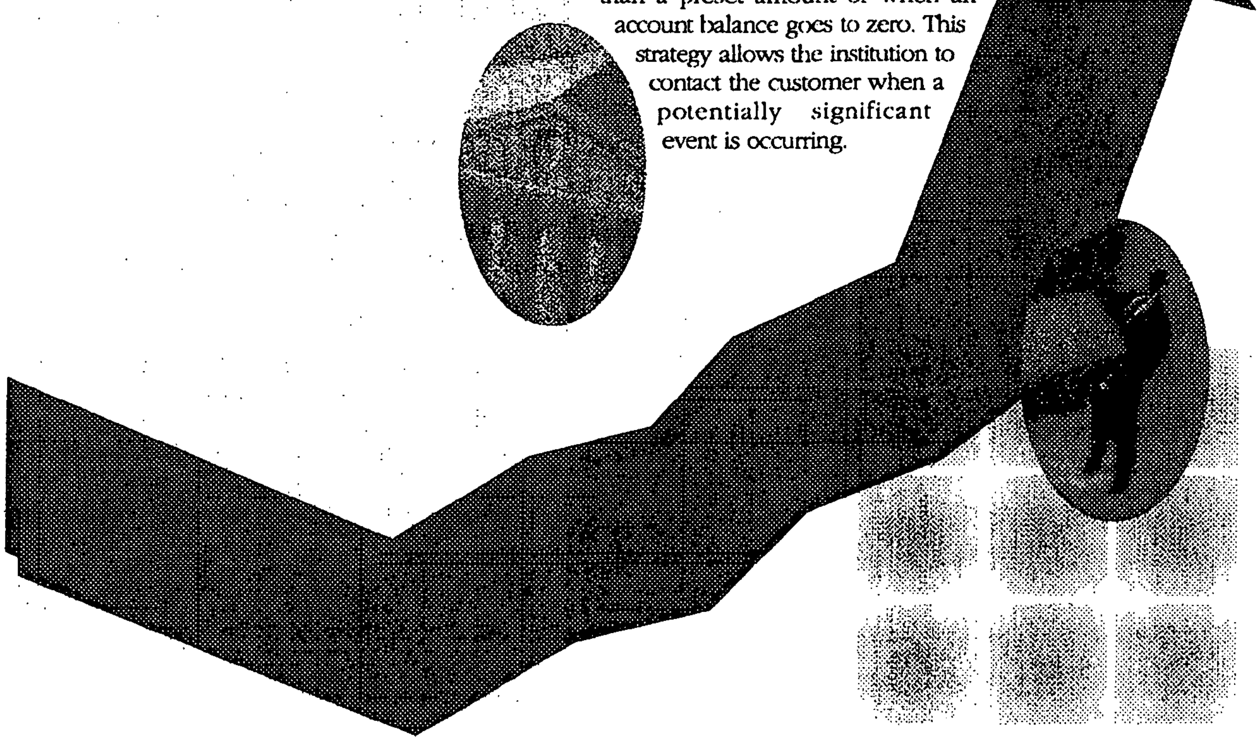
Predictive modeling, the second way to build a customer relationship, is an effort by the bank to develop formal models of customer behavior. The bank then relies on those models to anticipate products or services in which the customer may be interested.

Event-level marketing

Event-level marketing refers to those marketing activities triggered by events that occur throughout a person's lifetime or within a business relationship. Examples of traditional lifetime events include birthdays, home purchases, marriage, birth of children and retirement. Events that occur within traditional business relationships can include the initial purchase of a product and the anniversary date of the relationship.

Branding is critical to banking, where the perceived product differentiation between institutions is virtually non-existent.

Many marketers see these events as opportunities to enhance customer relationships by sending appreciations like birthday cards and thank-you notes. Many banks monitor their transaction files for large shifts of money—cases of a deposit or withdrawal greater than a preset amount or when an account balance goes to zero. This strategy allows the institution to contact the customer when a potentially significant event is occurring.



Although widespread, this strategy is often less-effective than banks typically believe because the tracking focuses exclusively on customer-initiated interaction with the institution. Frequently—and particularly in terms of retention—what a customer is doing with a competitor is much more telling than what she is doing with the bank. A more effective tactic would be for the bank to engage in a dialogue with its customers, *listening* to what's being said.

Customers still talk to their bankers, but banks don't listen the way they used to. Thirty years ago, for instance, many customers had personal relationships with their banker. He was their friend and they saw him when they were making important financial decisions. Today, however, that is not the case. The financial world is a complex environment where bankers rarely see the customers for whom they are responsible.

A second obstacle to bankers having personal relationships with their customers is the trend toward self-reliance in financial planning. Today, more people believe in UFO's than think that Social Security will provide retirement income. Most Americans believe that if they want a secure financial future, they must be aggressive in seeking-out advice.[6] The workload and economics of modern branch banking simply precludes knowing and advising most customers on a personal basis—even the profitable ones. Frequently, the only customers that a banker sees are those that frequent the branch.

Hi-tech detective work

Fortunately, modern technology can assist bankers in connecting to their customers. For instance, the data below (*Table 1*) presents actual monthly summary-level information for a customer. This is the same kind of data that any bank has available for any of its patrons.

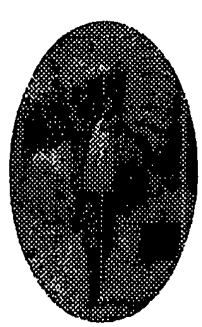
What does this table tell us about this customer? Upon analysis, he is evidently somewhat affluent, with a 13-month average end-of-month balance of over $7,000 in his DDA and just under $9,000 in his savings. We know he passes a substantial amount of money through his account: an average of $10,000 per month in checks and another $6,100 in POS transactions, preauthorized payments and other debits.

But these averages don't give a clear picture of the customer. To truly understand him—both now and in the future—his behavior over time needs to be closely examined.

A simple way to measure this is to plot a period of observed behavior with the standard deviation of that behavior. The availability of a standard deviation statistic allows for a measure of expected behavior to be established. Anything outside of the standard deviation may indicate a change in the customer's behavior and consequently warrant contact by the bank. At the same time, deviations beyond the norm may simply suggest that the customer is not particularly predictable. Let's take a closer look.

TABLE 1

Month	EOM Checking DDA Balance	EOM Savings Balance	Value of Deposits	Value of Checks Written	Value of Other Debits	Avg. DDA Balance	Total EOM Deposit Balance
1	4,298	8,481	$10,420	1,875	6,621	3,151	12,779
2	2,747	8,493	10,632	7,546	4,639	3,680	11,241
3	9,019	8,506	13,524	1,942	5,313	4,192	17,525
4	1,543	13,511	19,613	12,785	14,307	4,837	15,054
5	6,587	11,528	16,188	6,676	4,473	5,789	18,115
6	780	11,545	6,366	7,108	5,067	3,688	12,325
7	13,679	9,564	19,324	1,490	4,941	6,993	23,243
8	11,849	13,576	41,606	34,095	9,348	13,165	25,425
9	5,180	11,344	11,739	14,785	3,629	7,402	16,524
10	8,921	6,700	19,275	8,469	7,051	6,902	15,621
11	4,622	5,588	9,468	9,617	4,154	6,706	10,210
12	13,379	5,596	19,347	6,276	4,317	5,545	18,975
13	9,822	0	21,168	18,380	6,351	9,021	9,822



Simple high name-recognition may be insufficient for success—there must be brand recall.

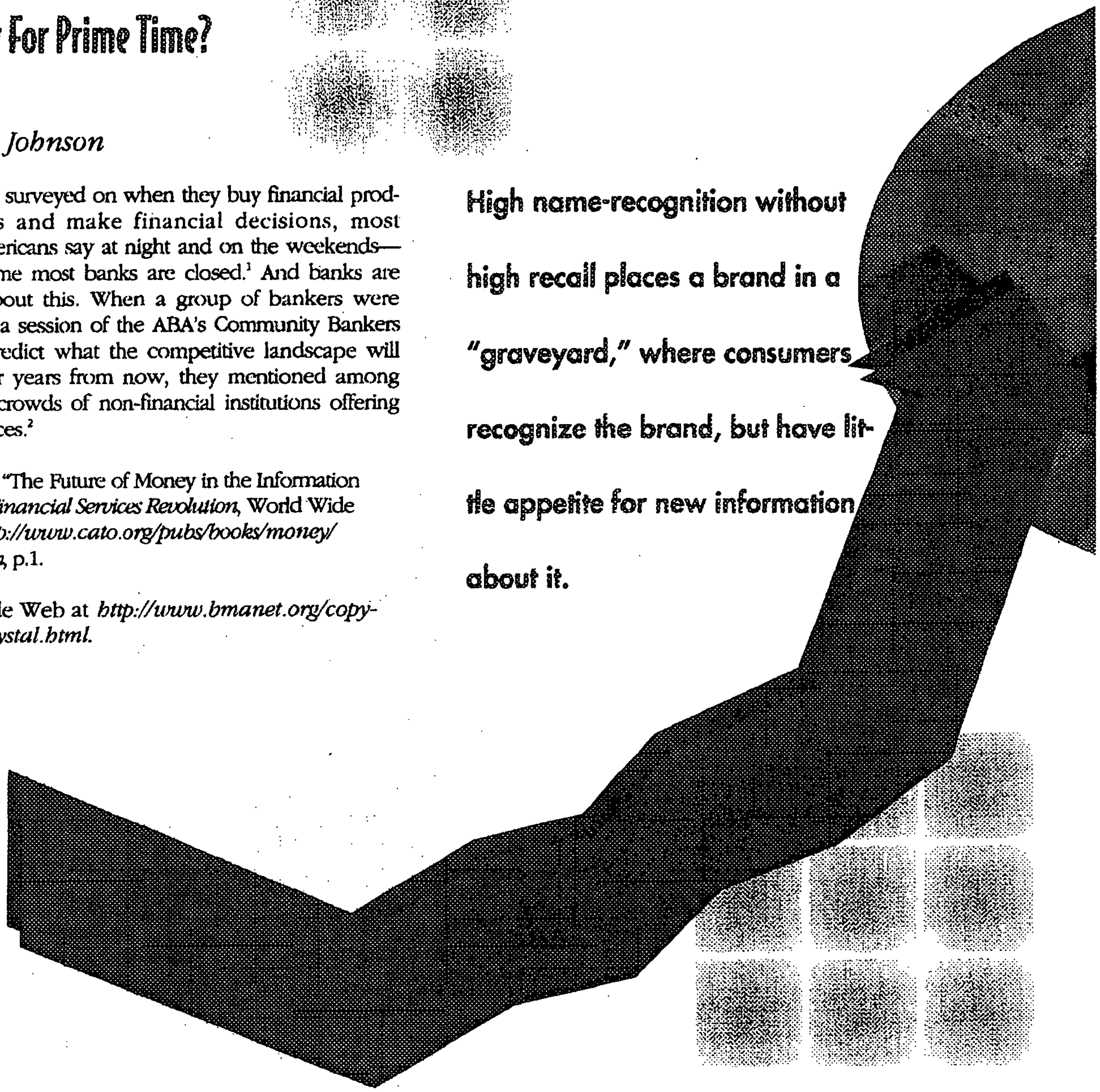
Not Ready For Prime Time?

by John R. Johnson

When surveyed on when they buy financial products and make financial decisions, most Americans say at night and on the weekends—the precise time most banks are closed.[1] And banks are concerned about this. When a group of bankers were asked during a session of the ABA's Community Bankers Council to predict what the competitive landscape will look like four years from now, they mentioned among other issues, crowds of non-financial institutions offering financial services.[2]

[1] Scott Cook, "The Future of Money in the Information Age", *The Financial Services Revolution*, World Wide Web at *http://www.cato.org/pubs/books/money/money7.htm*, p.1.

[2] World Wide Web at *http://www.bmanet.org/copy-3-trend-crystal.html*.



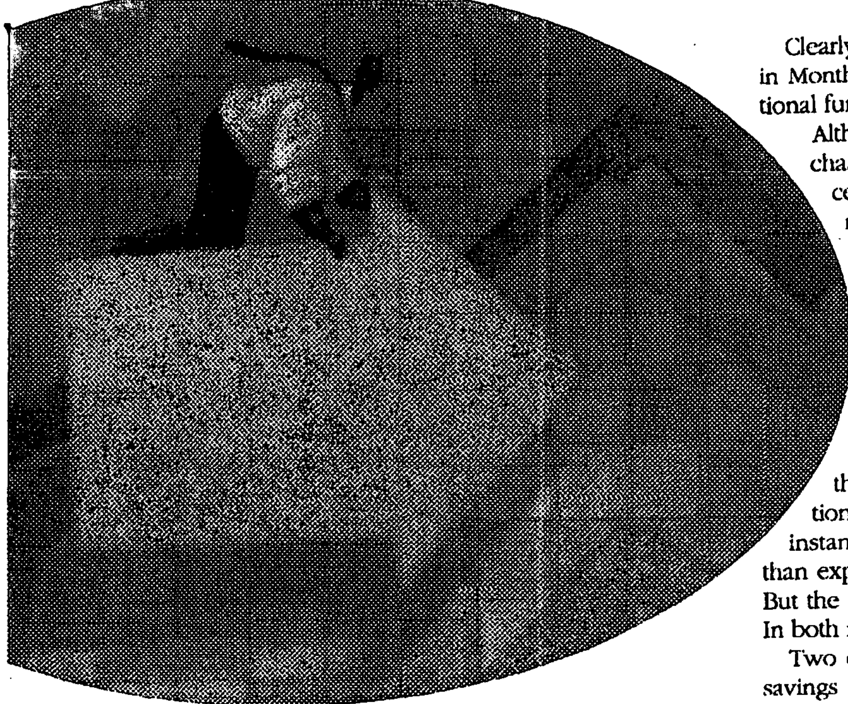
High name-recognition without high recall places a brand in a "graveyard," where consumers recognize the brand, but have little appetite for new information about it.

In the past 13 months, the customer's DDA balance at the end of the month was higher or lower than expected (outside the dotted lines) five times; in Months 4, 6, 7, 8 and 12. What significance, if any, does this have regarding the customer's overall behavior?

While critical business decisions are frequently based on just one piece of information, we have not only the end-of-month balances for DDA accounts, but also the average monthly DDA balance—as well as the end-of-month balance for savings. Additionally, we know the total dollars deposited into this customer's checking account, the total value of checks written on the account and the other debits drawn on the account. And finally, we have the overall deposit balance for this customer for the past 13 months.

Looking closely at this customer's average monthly checking balance, we see two instances where the balance exceeded the expected range. These were Month 1 and Month 8.

Is it a coincidence that the average balance in this customer's DDA account is significantly higher than usual in



Month 8 at the same time the end-of-month balance for the account was higher than usual in Months 7 and 8?

Examining the checking deposits in Months 7 and 8, we notice that there was a higher-than-expected dollar amount deposited—exceeding the expected maximum by $16,000 in Month 8. Except for one other occurrence, that was the only instance of being out of the range of expected behavior.

Did a significant event occur in Month 8? If so, what was it? Although not shown in the data, this customer received an unsecured loan for $30,000 on a 5-year term. The purpose of the loan was not disclosed.

Interestingly, the loan was apparently paid-out in Month 8 as well—there was an anomaly in the total value of checks written in that month. The total value of checks written that exceeded the highest expected value was $15,000—which is suspiciously close to excess value of deposits observed in Month 8.

Looking at the end-of-month savings balance, there were three exceptions to this customer's expected behavior. In Months 4 and 8, the customer's savings balance was higher than we would expect. And in Month 13, the balance went to zero. Was the zero balance of this savings account an important event?

High name recognition needs to translate into high brand recall. Banks have high recognition, but are not seen as synonymous with the need for products and services.

Clearly, something occurred with respect to this customer in Month 8. There was an obvious short-term use for additional funds. What was the need?

Although the bank never inquired, the customer purchased a piece of investment property with the proceeds of the unsecured note and then refinanced the real estate with a conventional mortgage loan. As there is no record of a mortgage loan for this customer, the refinancing must have been at another institution—a lost opportunity for the bank.

Other debits (POS transaction, drafts, etc.) yielded no indication of the customer's intentions and, with only one exception, the value of these transactions was within the expected range.

Does the customer's total deposit balance help the bank understand what the customer's future relationship with the bank is likely to be? There are three instances where the total balances are higher or lower than expected. The activity in Month 8 is seen here as well. But the more intriguing activity occurs in Months 11 and 13: In both instances, the balances are lower than expected.

Two critical questions arise from this analysis. Is the zero savings balance a significant event? And is the total deposit balance of the customer actually declining or only an aberration? The problem is that with only this information, we can't know if these occurrences are significant. We can only suspect that an event important for this customer occurred during Month 8 and the bank should have been talking to her during this time.

Preemptively responding to customers

As mentioned earlier, focusing exclusively on a customer's interaction with the bank may miss a great deal because it puts the onus on the customer to take some overt action. This passive stance regarding customers is all the more unfortunate because, as demonstrated, banks have substantial information that can create much fuller profiles of customers, enabling institutions to pre-emptively take relationship-saving actions.

In this example, there were clues that indicated that the customer might be in the process of terminating his relationship with the bank. In Month 10, the customer paid neither his power bill nor his water bill from this account. In Month 11, a draft for an insurance premium did not occur. In Month 12, the customer's mortgage, cable, telephone, and natural gas bills were not paid through this account. Two drafts to an insurance company were also not initiated. Finally, in Month 13, a mortgage payment that was being drafted did not occur.

But the bank didn't detect these clear warnings because it was not monitoring detail-level transactions on a daily basis. The importance of understanding what your customer is and *is not doing* daily cannot be overstated.

One of the most powerful tools in marketing is the capability of detecting customer behavior and responding to it. This ability stems from business-rule analysis of detail-level data. But as powerful as event-level marketing is, it may be insufficient to maintain customer mindshare. It may be necessary for the bank to proactively make products and services available

to customers *before* they express a need for them. The earlier discussion of "brand recall" makes it an absolute necessity for the customer be made aware of products that, based upon what she has shown a propensity to own or use, the bank believes the she may need. ■

In the June 1999 issue of Bank Marketing, *John R. Johnson concludes his examination of customer relationship-building with an examination of predictive marketing. He is a senior business consultant in customer management solutions with a large technology company. Johnson can be reached at (704) 509-9501.*

[1] David A. Aaker, *Building Strong Brands* (Free Press, 1996), pp. 13-15.

[2] David Whitford, "Take It to the Bank", *Forbes*, September 29, 1997, p. 296.

[3] Delton L. Chesser, Carlos W. Moore, and Shweta Sakards, "Consumer Attitudes About Accounts as PFP Providers", *Journal of Accountancy*, June 1996, p. 52.

[4] Whitford, p.296.

[5] Pierre Berthon, James M. Hulbert, and Leyland F. Pitt, "Brand Management Prognostications", *Sloan Management Review*, Winter, 1999, p.56.

[6] Scott Cook, "The Future of Money in the Information Age", World Wide Web at *http://www.cato.org/pubs/books/money/money7.htm*, p.2.

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